

Message Text

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ACTION EUR-25

INFO OCT-01 IO-12 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10

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TAGS: EFIN, ETRD, YO

SUBJECT: YUGOSLAV ECONOMIC TRENDS: FIRST QUARTER 1973

REFS: A. BELGRADE 1129 B. BELGRADE A-24 (JAN 72)

SUMMARY: FIRST QUARTER RESULTS SHOW BRIGHT PROSPECTS FOR 1973
EXTERNAL ACCOUNTS. PRODUCTIONGROWTH RATE MODERATE, WITH CONSUMER
DEMAND AND INVESTMENT GROWTH RATE CONTINUING TO TAPER OFF. PRICES
AND COST OF LIVING INCREASES REMAIN DIFFICULT POINTS, ESPECIALLY IN
LIGHT OF PARTIAL WAGE FREEZE AND SUPPOSEDLY COMPLETE FREEZE ON
PRICE INCREASES. VARIETY OF EFFORTS BEING UNDERTAKEN TO INCREASE
WORKING CAPITAL RESOURCES OF BANKS AND BUSINESSES. ILLIQUIDITY
MEASURERS APPEAR TO BE WORKING WELL, ALTHOUGH SOME CREDITORS AR
APPARENTLY VOLUNTARILY WITHDRAWING DEMANDS FOR PAYMENTS DUE IN
ORDER TO KEEP DEBTORS AFLOAT. GOY FACES CRITICAL JUNCTURE IN
JUNE WHEN WAGE/ PRICE CONTROLS SCHEDULED TO BE LIFTED. END SUMMARY.

1. PRELIMINARY FIRST- QUARTER TRADE DATA SHOWS EXPORTS UP 14
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PERCENT AND IMPORTS UP 36 PERCENT OVER FIRST QUARTER 1972. JANUARY-
MARCH TRADE DEFICIT (PRELIMINARY) \$392- MILLION (EXPORTS \$561- MILLION/

IMPORTS \$952- MILLION AT 17 ND EQUAL ONE DOLLAR). BIG JUMP IN VALUE OF IMPORTS OVER FIRST QUARTER 9172 REFLECTS UNUSUALLY LOW IMPORTS IN FIRST QUARTER 1972 AS WELL AS CURRENT 20-30 PERCENT HIGHER WORLD PRICES FOR RAW MATERIAL IMPORTS, ESPECIALLY OIL AND AGRICULTURAL PRODUCTS, E. G. COTTON, HIDES, ETC. OIL INDUSTRY ESTIMATES, FOR EXAMPLE, THAT DEVALUATION WILL RESULT IN ADDED \$50- MILLION EXPENDITURE

FOR IMPORT CRUDE AND DERIVATIVES IN 1973. BY COMPARISON FIRST QUARTER 1972, EXPORTS TO CONVERTIBLE CURRENCY AREA WERE UP 16 PERCENT, CLEARING AREA UP 9 PERCENT, OTHERS UP 17 PERCENT. IMPORTS FROM CONVERTIBLE CURRENCY AREA WERE UP 35 PERCENT, FROM CLEARING COUNTRIES UP 39 PERCENT AND FROM OTHERS UP 43 PERCENT. EXPORTS CONTINUE TO BE LED BY INDUSTRIAL PRODUCTS -- UP 18 PERCENT-- WITH BEST

PERFORMANCE IN METALS INDUSTRY.

2. INVISIBLES OUTLOOK CONTINUES BRIGHT. NATIONAL BANK REPORTS FOREIGN EXCHANGE INFLOW FORM WORKERS' REMITTANCES UP 19 PERCENT OVER FIRST TWO MONTHS 1972 TO \$215.8- MILLION FOR FIRST TWO MONTHS 1972. ON SAME BASIS COMPARISON, TOURISM FOREIGN EXCHANGE INFLOW FOR SAME PERIOD UP 26 PERCENT TO \$63- MILLION. TRANSPORTATION AND OTHER RECEIPTS UP 69.5 PERCENT OVER FIRST TWO MONTHS 1972. NATIONAL BANK NOW FORECASTS LARGE CURRENT ACCOUNT SURPLUS IN 1973 ON BASIS GOOD EXPORT GROWTH, CONTROLLED IMPORTS AND IMPROVED INVISIBLES EARNINGS (BELGRADE 1549).

3. OVERALL INDUSTRIAL PRODUCTION IN FIRST QUARTER 1973 UP 7.5 PERCENT, SAME AS ANNUAL RATE PROJECTED IN 1973 ECONOMIC POLICY STATEMENT. FOREGOING COMPARES TO 6.3 PERCENT INCREASE INDUSTRIAL PRODUCTION LAST QUARTER 1972. CONSUMER AND INVESTMENT DEMAND MAY BE DECLINING, REFLECTING IMPACT STABILIZATION MEASURES. BY COMPARISON FIRST QUARTER 1972, DISPOSABLE CONSUMER INCOME SAID TO HAVE DECLINED 4 PERCENT. LJUBLJANA LAW FACULTY ECONOMICS INSTITUTE CONFIRMS EARLIER FORCASTS OF REDUCED CONSUMER SPENDING AND NOW FORECASTS DECREASED PROPENSITY TO SPEND ON PART OF CONSUMERS THROUGH OCTOBER. EMBASSY ALSO HAS IMPRESSION THAT OVERALL INVESTMENT RATE CONTINUES TO TAPER OFF. CONTINUING SERIES BEGUN IN REFTEL A, JANUARY TOTAL INVESTMENT 2.2 BILLION NEW DINARS. IN LIGHT FOREGOING INDICATIONS, INVENTORIES MUST BE GROWING, EVEN THROUGH GROWTH IN INDUSTRIAL OUTPUT SAID TO BE EXPORT- LED. LIMITED OFFICIAL USE

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4. PRICES REMAIN AREA OF DIFFICULTY. DESPITE APPARENT DROP TOTAL DEMAND AND PRICE FREEZE INSTITUTED FEBRUARY 15, RETAIL PRICES ROSE 4.6 PERCENT IN FIRST QUARTER, PRODUCER PRICES WERE UP 3 PERCENT, AND COST OF LIVING ROSE 4.6 PERCENT COMPARED TO C DECEMBER 1972. COMPARED TO FIRST QUARTER 1972, RETAIL PRICES ARE UP 16.9 PERCENT, INDUSTRIAL PRICES ARE UP 15.3 PERCENT AND AGRICULTURAL PRICES ARE UP 25.3 PERCENT. COST OF LIVING UP 19.9 PERCENT FROM FIRST QUARTER 1972. PRESSURE FROM CTUY TO ENSURE THAT WAGE

FREEZE IN INO- ECONOMIC SECTOR IS LIFTED AS SCHEDULED JUNE 30
HAS ALREADY BEGUN. FEDERAL SECRETARY FOR ECONOMY HAS SAID THAT
" SOME" PRICES WILL REMAIN UNDER PUBLIC CONTROL AFTER JUNE 30.
WAGE/ PRICE SPIRAL COULD RESUME WITH REAL VENGEANCE IF OTHER
FORMS OF RESTRAINT DO NOT REPLACE PRICE AND WAGE FREEZES.

5. REASONS FOR CONTINUED RISE IN PRICES ALTHOUGH FROZEN ARE
TWO- FOLD -- GOVERNMENT AUTHORIZED EXCEPTIONS, I. E., COAL PRICES
AND ELECTRICITY RATES, AND WIDESPREAD VIOLATION IN MARKET PLACE.
MARKET INSPECTORATE REPORTS OVER 5000 FIRMS CHARGED WITH BREACHES
OF PRICE FREEZE.

6. INCREASING CONCERN BEING EXPRESSED OVER DISPARITY BETWEEN
SOCIAL OVERHEAD INVESTMENT AND CAPITAL INVESTMENT (TOO MUCH IN FORMER
AND NOT ENOUGH IN LATTER). COMMERCIAL BANKS WERE RECENTLY FOR-
BIDDEN BY FEDERAL EXECUTIVE COUNCIL TO EXTEND CREDITS FOR INFRA-
STRUCTURE PURPOSES WHICH MUST NOW BE FINANCED BY LOCAL COMMUNES
THROUGH TAX REVENUE AND DOMESTIC BOND ISSUES. MONEY SUPPLY
INCREASED 2.2 PERCENT IN JANUARY OVER DECEMBER 1972 AND WAS
41.4 PERCENT GREATER THAN LEVEL IN JANUARY 1972.

7. BANKING SYSTEM UNDERGOING EXTENSIVE CHANGES DESIGNED TO ENHANCE
WORKING CAPITAL FLOW THROUGHOUT ECONOMY. INTEREST RATES ON SIGHT
DEPOSITS EXPECTED TO BE SIGNIFICANTLY REDUCED BEFORE JUNE. CONTINUED
HIGH INTEREST RATES ON TIME DEPOSITS EXPECTED TO INCREASE PROPENSITY
FOR LONG- TERM SAVINGS (BELGRADE A-224). NATIONAL BANK HAS ALSO
UNDERTAKEN TO CONVERT OUTSTANDING SHORT- TERM CREDIT TO LONG- TERM
(FIVE YEARS), LOW INTEREST (3 PERCENT) LOANS. NATIONAL BANK
PRIMARY ISSUE FOR FIRST QUARTER INCREASED TO 2.36- BILLION NEW DINARS.

8. GENERAL CONSENSUS OF ECONOMIC LEADERSHIP IS THAT STABILIZATION
PROGRAM (PAYMENT OF OVERDUE DEBITS AND LIQUIDATION OF UNCOVERED
INVESTMENTS) PROCEEDING WELL DESPITE DIFFICULTIES. NUMBER OF COURT-
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ORDERED PAYMENTS, BLOCKED BANK ACCOUNTS, WORKERS RECEIVING
MANDATORY WAGE CUTS IN ILLIQUID FIRMS, UNPAID BILLS AND UNCOVERED
INVESTMENTS ARE ALL DOWN. THERE IS SOME EVIDENCE THAT CREDITORS
HAVE VOLUNTARILY WITHDRAWN DEMANDS FOR PAYMENT OF OVERDUE BILLS
IN ORDER TO GIVE DEBTORS TIME TO REORGANIZE AND AVOID BANKRUPTCY
PROCEEDINGS WHEREBY EVERYONE LOSES. WHILE NOT ILLEGAL, THIS
APPROACH VITIATES INTENT OF ILLIQUIDITY MEASURES BY POSTPONING
INEVITABLE DAY OF RECKONING FOR HOPELESS ENTERPRISES.
JOHNSON

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